

**LEGISLATIVE SERVICES AGENCY  
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**FISCAL IMPACT STATEMENT**

**LS 6307**

**BILL NUMBER:** HB 1221

**NOTE PREPARED:** Apr 11, 2011

**BILL AMENDED:** Apr 7, 2011

**SUBJECT:** Life Insurance and Medicaid.

**FIRST AUTHOR:** Rep. Brown T

**FIRST SPONSOR:** Sen. Kenley

**BILL STATUS:** 2<sup>nd</sup> Reading - 2<sup>nd</sup> House

**FUNDS AFFECTED:** ☒ **GENERAL**  
**DEDICATED**  
☒ **FEDERAL**

**IMPACT:** State

**Summary of Legislation:** (Amended) This bill allows the state to use federal or state Medicaid funds to pay life insurance premiums and expenses for certain Medicaid applicants or recipients who have irrevocably named the state as the beneficiary of an in-force life insurance policy or assigned a life insurance policy to the state. The bill provides that life insurance proceeds that exceed the amount of Medicaid benefits be paid to the beneficiary of the recipient.

The bill also provides that the value of a life insurance policy owned by certain applicants or recipients may not be considered in determining Medicaid eligibility if the applicant or recipient has irrevocably named the state as the beneficiary or assigned the life insurance policy to the state.

**Effective Date:** July 1, 2011.

**Explanation of State Expenditures:** (Revised) According to the Office of Medicaid Policy and Planning (OMPP), there is currently no authority for states to pay life insurance premiums under the Medicaid program, so there would be no federal financial participation for this type of expenditure. Since this is a "may" provision which likely requires staff resources to implement, presumably the state would only choose to do this with state-only dollars in the specific instances when it was in the state's interest to do so. Consequently, there should be no net fiscal cost associated with this provision. There could potentially be additional recoupments of Medicaid expenditures.

As for the second provision of excluding the value of a life insurance policy in eligibility determination, according to OMPP, Medicaid recipients currently can exempt the cash value of a whole life insurance policy whose face value is \$10,000 or less, when the beneficiary is the estate or a funeral home. Otherwise, the cash

value is considered a countable resource, and the individual would have to cash the policy out and spend the proceeds in order to gain eligibility. If the state is assigned the policy, the state would have ownership of the death benefit, as well as any cash value that might exist, up to the amount of Medicaid benefits provided.

The bill specifies that any policy under which the state is named as an irrevocable beneficiary or that has been collaterally assigned to the state may not be sold, assigned, or the ownership transferred to any person or entity. The provision could expand eligibility for the program to some extent and require the use of staff resources to implement the provision and track current and former Medicaid recipients for the purpose of collecting on the life insurance policies.

In the event of the state's being named beneficiary, there would also be a timing impact associated with the later receipt of the death benefit (provided under the bill) as compared to the reduction of Medicaid expenditures because of the time required for an applicant to spend resources on the applicant's care prior to Medicaid eligibility.

[The bill requires that life insurance proceeds in excess of the amount of Medicaid "benefits provided to a recipient" are to be paid to a beneficiary named by the recipient. The likelihood that individual situations will have a positive impact for the state will be greater if "benefits provided to a recipient" include both the Medicaid services provided as well as the premiums and expenses paid on behalf of the recipient.]

**Explanation of State Revenues:** See *Explanation of State Expenditures*, above, regarding federal financial participation in the Medicaid program.

**Explanation of Local Expenditures:**

**Explanation of Local Revenues:**

**State Agencies Affected:** Office of Medicaid Policy and Planning.

**Local Agencies Affected:**

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